RA
412.3
.S525
1994

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

MAY 20 1994

The Honorable Albert Gore, Jr.
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

I am respectfully submitting my calendar year (CY) 1995 physician fee schedule update and fiscal year (FY) 1995 Medicare volume performance standard (MVPS) recommendations. Section 1848 of the Social Security Act (the Act) requires the Secretary of Health and Human Services to make these recommendations by April 15 of each year.

Physician Fee Schedule Update Recommendation

I am recommending a combined update of 6.2 percent for all physician services broken down as follows: 10.2 percent for surgical services, 9.4 percent for primary care services, and 3.7 percent for other nonsurgical services. These updates take into account the 2.7 percentage point reduction from the physician fee schedule update required by OBRA 1993 and the President's Health Security Act (HSA) which proposes a 3.0 percentage point reduction. Primary care services would be exempt from both the OBRA 1993 and HSA reductions. If Congress does not enact the update, by October 31, 1994, it would be based on a statutory "default" formula. Under current law, our estimate of the physician update using the default formula would be 8.6 percent for all physician services broken down as follows: 13.2 percent for surgical services, 9.4 percent for primary care service and 6.7 percent for other nonsurgical services. This estimate may change slightly later in the year when more complete and current data are available.

MVPS Recommendation

I am also recommending FY 1995 MVPS rates of increase of 5.6 percent for all physician services broken down as follows: 5.8 percent for surgical services, 11.1 percent for primary care and 3.3 percent for other nonsurgical services. These rates of growth are consistent with the formula in current law; however, the factor used to calculate increases in volume and intensity reflects a provision in the HSA. Under current law, the MVPS is

REPORTS
RA
412
.3
S525
1994

determined by combining the effects of inflation (i.e., increases in Medicare payment allowances) enrollment growth, changes in law and regulations and the 5-year average rate of growth in volume and intensity less a statutory performance factor of 4.0 percent. Under the HSA, the factor for volume and intensity would be replaced by the 5-year average per capita gross domestic product increased by 1.5 percentage points for primary care services. As noted above, the update factor for 1995 which enters into the MVPS calculation, would be reduced under the HSA. There are also several other changes in the HSA which, if enacted, would also affect FY 1995 expenditures and consequently the MVPS. In addition, for the 1995 MVPS, we propose a reallocation of clinical diagnostic laboratory expenditures between the three categories. This change could affect the 1997 update.

Under current law, our estimate of the MVPS using the default formula would be 9.7 percent for all physician services broken down as follows: 11.8 percent for surgical services 12.8 percent for primary care services, and 7.5 percent for other nonsurgical services.

If Congress does not act to establish the MVPS and physician update, the rates will be established through the automatic default formulae. I look forward to working closely with Congress on these issues and others of mutual concern in the months to come.

Sincerely,

Donna E. Shalala

Attachments (2)

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

MAY 20 1994

The Honorable Thomas S. Foley
Speaker of the House of Representatives
Washington D.C. 20515

Dear Mr. Speaker:

I am respectfully submitting my calendar year (CY) 1995 physician fee schedule update and fiscal year (FY) 1995 Medicare volume performance standard (MVPS) recommendations. Section 1848 of the Social Security Act (the Act) requires the Secretary of Health and Human Services to make these recommendations by April 15 of each year.

Physician Fee Schedule Update Recommendation

I am recommending a combined update of 6.2 percent for all physician services broken down as follows: 10.2 percent for surgical services, 9.4 percent for primary care services, and 3.7 percent for other nonsurgical services. These updates take into account the 2.7 percentage point reduction from the physician fee schedule update required by OBRA 1993 and the President's Health Security Act (HSA) which proposes a 3.0 percentage point reduction. Primary care services would be exempt from both the OBRA 1993 and HSA reductions. If Congress does not enact the update, by October 31, 1994, it would be based on a statutory "default" formula. Under current law, our estimate of the physician update using the default formula would be 8.6 percent for all physician services broken down as follows: 13.2 percent for surgical services, 9.4 percent for primary care service and 6.7 percent for other nonsurgical services. This estimate may change slightly later in the year when more complete and current data are available.

MVPS Recommendation

I am also recommending FY 1995 MVPS rates of increase of 5.6 percent for all physician services, broken down as follows: 5.8 percent for surgical services, 11.1 percent for primary care and 3.3 percent for other nonsurgical services. These rates of growth are consistent with the formula in current law; however, the factor used to calculate increases in volume and intensity reflects a provision in the HSA. Under current law, the MVPS is

determined by combining the effects of inflation (i.e., increases in Medicare payment allowances) enrollment growth, changes in law and regulations and the 5-year average rate of growth in volume and intensity less a statutory performance factor of 4.0 percent. Under the HSA, the factor for volume and intensity would be replaced by the 5-year average per capita gross domestic product increased by 1.5 percentage points for primary care services. As noted above, the update factor for 1995 which enters into the MVPS calculation, would be reduced under the HSA. There are also several other changes in the HSA which, if enacted, would also affect FY 1995 expenditures and consequently the MVPS. In addition, for the 1995 MVPS, we propose a reallocation of clinical diagnostic laboratory expenditures between the three categories. This change could affect the 1997 update.

Under current law, our estimate of the MVPS using the default formula would be 9.7 percent for all physician services broken down as follows: 11.8 percent for surgical services 12.8 percent for primary care services, and 7.5 percent for other nonsurgical services.

If Congress does not act to establish the MVPS and physician update, the rates will be established through the automatic default formulae. I look forward to working closely with Congress on these issues and others of mutual concern in the months to come.

Sincerely,

Donna E. Shalala

Attachments (2)

Physician Fee Schedule Update Recommendation For Calendar Year (CY) 1995

Background

Under section 1848(d)(2) of the Act, the Secretary annually recommends a fee schedule update to Congress by April 15. The Physician Payment Review Commission (PPRC) reviews the Secretary's recommendation and makes its own recommendation by May 15. If Congress does not set an update by October 31, the update will be established through an automatic default mechanism as set forth in section 1848(d)(3) of the Act. Under this mechanism, the update will equal the Medicare Economic Index (MEI) increased or decreased by the number of percentage points by which actual expenditures in the second preceding fiscal year exceeded or were less than the performance standard rate of increase established for that year. The adjustment to the MEI for a category of physicians' services cannot be reduced by more than 5 percentage points in a given year. The President's Health Security Act would eliminate the limit on downward reductions to the MEI. There is currently no limit on upward adjustments to the MEI.

Section 1848(a)(2) provides for a transition from the reasonable charge payment system to the physician fee schedule for some services. For services subject to the transition, payment will be a blend of the payment under the reasonable charge payment system and the physician fee schedule amount. The transition to the fee schedule is occurring over the 1992-1996 period. By 1996, all services will be paid completely under the physician fee schedule. For services subject to the transition rules, payment in 1995 will equal 50 percent of the payment in 1994 (updated for 1995) and 50 percent of the fully implemented fee schedule amount which is computed based on the conversion factor updated for 1995. For services already paid at the fully implemented fee schedule amount, payment will be based on the updated conversion factor. The statute requires the Secretary to update both the conversion factor and the prior year's payment amount that is used for determining payments during the transition. We will refer to both updates as the physician fee schedule update.

Statutory Requirement

Pursuant to section 1848(d) of the Act, the Secretary shall provide Congress with a recommendation of a fee schedule update by April 15th of each year. The Secretary is required to consider the following factors:

- The percentage change in the MEI (a measure of the increase in the cost of operating a medical practice);
- The percentage by which actual expenditures for physicians' services in the first preceding fiscal year were less than or exceeded actual expenditures in the second preceding fiscal year;
- The relationship between the percentage determined above for a fiscal year and the performance standard rate of increase for that fiscal year (this factor is to be adjusted to account for changes in the proportion of Medicare beneficiaries enrolling in health maintenance organizations (HMOs));
- Changes in the volume and intensity of services;
- Access to services; and
- Other factors that may contribute to changes in volume and intensity of services or access to services.

The Secretary also may consider:

- Unexpected changes by physicians in response to implementation of the fee schedule;
- Unexpected changes in outlay projections;
- Changes in the quality or appropriateness of care; and
- Any other relevant factors not measured in the resource-based payment methodology.

Section 1848(d)(2)(E) of the Act requires the Secretary to provide a statement of the percentage by which actual expenditures were less than or exceeded projected expenditures for the first preceding fiscal year. Projected expenditures are defined in the section to be actual expenditures in the second preceding fiscal year increased by the following factors:

- The weighted average percentage increase in payments for physicians' services for the preceding fiscal year;
- The percentage increase in the number of non-HMO Part B enrollees;
- The average annual growth in the volume and intensity of services for the preceding 5-year period ending with the second preceding fiscal year; and
- The percentage change in expenditures resulting from changes in law or regulations.

As described above, for this purpose, projected FY 1993 expenditures are determined essentially using the same formula as the MVPS with the exception that the performance factor reduction of 2.0 is not applied. Using this formula, projected expenditures were estimated to increase by 12.0 percent and expenditures actually increased by 1.4 percent. This is the second year in a row that Medicare physician expenditures increased less than the target rate of growth as determined by a statutory default formula. This illustrates a major problem with the MVPS. Because it is based on volume/intensity in a historical period, when there are changes from the historical trend, the MVPS is neither a good predictor of the future nor an appropriate standard for acceptable rates of growth.

In FY 1992 and FY 1993, the rate of increase in physician expenditures was less than the target. However, those two years of low growth will eventually catch-up with the five year average in historical volume/intensity making for a lower MVPS in the future. The fluctuations inherent in historical volume/intensity growth rates illustrates a substantial flaw in the MVPS formula. The President's Health Security Act (HSA) proposes to eliminate the link between the MVPS and historical volume/intensity and base the MVPS on real per capita GDP beginning in FY 1995.

We are continuing to analyze the data to better explain the reduction in the projected rate of growth. However, there are several possible explanations we can offer. First, the long term trend whereby volume and intensity was growing at a rate of 6-8 percent per year may have changed. However, the MVPS built in the 5-year average rate of growth, thus the MVPS may have been set too high. Second, the impact of the fee schedule and the accompanying standardization of payment policies and procedures

may have had an impact on the rate of growth. We now have much greater standardization in coding, definition of global periods, rules regarding what services can be separately billed and what services are "bundled", etc., which could affect the rate of growth. Finally, it is difficult to determine whether or not the volume offset that was assumed in response to changes in fees under the fee schedule for both physicians and beneficiaries occurred. The drop in the rate of increase in expenditures is much larger than the amount that the fee schedule was reduced in anticipation of a volume response.

1995 Physician Fee Schedule Update

The following sections discuss the factors considered in the development of the CY 1994 physician fee schedule update.

The Percentage Change in the MEI

The MEI is a measure of inflation in selected factors that are most relevant to a physician's office practice. The physician practice expense component has a weight of 45.8 percent and comprises such factors as non-physician employee compensation, office expenses, medical materials and supplies, professional liability insurance, medical equipment and other professional expenses. The physician's own time (net income, general earnings) component has a weight of 54.2 percent and comprises increases in average hourly earnings for private sector nonfarm workers and fringe benefits. Both factors in the physician's own time component are adjusted for increases in productivity. Annual increases in these factors are measured to arrive at the MEI. Our current estimate of the MEI increase for CY 1995 is 2.2 percent. However, our current MEI estimate could change between now and when the CY 1995 physician fee schedule update is determined because of use of more current updated economic data.

Performance Relative to the MVPS

Under present law, our current estimate of the performance relative to the MVPS is as follows:

	Rate of Increase in Expenditures	FY 93 MVPS	Performance Adjustment
Surgical Services	-5.3%	+8.4%	+13.7%
Nonsurgical Services	+3.6%	+10.8%	+7.2%
All Physician Services	+1.4%	+10.0%	+8.6%

Changes in Volume and Intensity

The FY 1993 performance standard included an allowance for changes in volume and intensity. We are continuing to analyze the changes in the volume and intensity that occurred in FY 1993 on a detailed level to ascertain what caused the substantial reduction in the rate of growth.

Access to Services

Our report, "Monitoring Utilization and Access to Services for Medicare Beneficiaries Under Physician Payment Reform," discusses our efforts and future plans to monitor utilization and access. This report which will be transmitted in the near future, concludes that we do not have any evidence of a national problem of access to care for Medicare patients nor have we seen any evidence of substantial problems at a local level. Furthermore, we would note that participation and assignment rates in recent years have continually increased and are now at an all time high. Thus, we do not believe the update factor should be increased for this factor.

Unexpected Changes by Physicians in Response to Fee Schedule Implementation and Unexpected Changes in Outlay Projections

On January 1, 1992, Medicare replaced the reasonable charge payment system with a physician fee schedule. Under the physician fee schedule, payments are generally being reduced for procedural services (e.g., surgical services, radiology services and anesthesia services) and increased for medical visits and consultations. Payments are also being significantly redistributed between geographic areas under the fee schedule. We were required to implement the physician fee schedule in a budget neutral manner (i.e., aggregate expenditures under the fee schedule should equal payments under the reasonable charge payment system had it continued).

In setting budget neutral payment rates under the Medicare physician fee schedule, we assumed that there would be responses by physicians and beneficiaries to changes in payment levels and policy standardization under the physician fee schedule. To ensure budget neutral payments assuming this volume and intensity response, we reduced the fee schedule conversion factor by about 6 percent cumulatively from 1992 to 1996. Due to the transition, this had about a 1.4 percent effect for FY 1993.

As we mentioned earlier, it is difficult to determine whether or not the volume offset occurred because the drop in the rate of increase in expenditures was much larger than the amount that the fee schedule was reduced in anticipation of a volume response. In any case, we indicated that if the anticipated response did not occur, this would be corrected through the MVPS process. The

CY 1995 performance adjustment of 8.5 percent to the fee schedule update returns the 1.4 percent FY 1993 budget neutrality adjustment. With the CY 1995 adjustment, the performance adjustments to date have returned 4 percent of the initial 6 percent budget neutrality adjustment.

Changes in the Quality or Appropriateness of Care

We have no data to indicate that there have been any changes in the quality or appropriateness of care rendered to Medicare beneficiaries that needs to be considered in making our update or performance standard recommendations.

Update Recommendation for CY 1995

Our update recommendation for CY 1995 attempts to balance three principles. First, we want to ensure that the fee schedule fulfills its promise to shift payments from procedure oriented services to primary care and other cognitive services. Second, we want to continue to demonstrate our commitment to the MVPS process by honoring the implicit agreement with physicians to adjust the 1995 update by actual performance against the standards. Third, we believe the physician fee schedule update should reflect the President's Health Security Act.

Having considered these goals, our recommendation for CY 1995 is consistent with the structure of present law which establishes separate updates for surgical, primary care and other nonsurgical services, adjusts the MEI based on expenditures relative to the MVPS, and applies the OBRA 1993 reduction of 2.7 percent for all services except primary care. However, consistent with the President's Health Security Act, we are recommending that the updates under the automatic default mechanism be reduced by 3.0 percentage points for all services except primary care. Thus, for 1995, we are proposing three update amounts: 10.2 percent for surgical services, 9.4 percent for primary care services, and 3.7 percent for other nonsurgical services. These were derived as follows:

	Surgical Services	Nonsurgical Services	Primary Care Services
MEI	2.2%	2.2%	2.2%
Performance Adjustment	13.7%	7.2%	7.2%
OBRA 1993 Budget Adjustment	-2.7%	-2.7%	0.0%
HSA Adjustment	-3.0%	-3.0%	0.0%
Recommended Update	10.2%	3.7%	9.4%

If Congress does not act to establish the update, the update will be established through the automatic default formula. Our current estimates of the 1995 updates under present law are: 13.2 percent for surgical services, 9.4 percent for primary care services, and 6.7 percent for other nonsurgical services. These estimates were derived as follows:

	Surgical Services	Nonsurgical Services	Primary Care Services
MEI	2.2%	2.2%	2.2%
Performance Adjustment	13.7%	7.2%	7.2%
OBRA 1993 Budget Adjustment	-2.7%	-2.7%	0.0%
Update Under Present Law	13.2%	6.7%	9.4%

Section 1848(d)(2)(D) requires the Secretary to recommend an update for each "category of physicians' services...and for each of the following groups of physicians' services: nonsurgical services, visits, consultations, and emergency room services." We are recommending separate updates only for surgical services, primary care services (which include office visits and emergency room visits but not hospital visits and consultations) and other nonsurgical services.

The statute requires that the differential update for surgical and nonsurgical services be applied on a procedure-specific basis without regard to physician specialty. On May 3, 1990, we defined surgical services in the Federal Register [55 FR 18668] for the purposes of the MVPS to include surgical services that are performed by surgical specialists and stated our intention to define surgical services on a procedure-specific basis. On November 25, 1992, we published a final notice with comment of our revised definition in the Federal Register [57 FR 56168] for the purposes of the update for CY 1994 and subsequent years and for measuring expenditures under the MVPS beginning with FY 1994. We also published a list of the services which are considered surgical under our revised definition. Based on the comments received, we made changes in the list of services which are considered surgical for the purposes of the physician fee schedule update. We published changes to the list of surgical services in the December 2, 1993 Federal Register notice announcing the physician fee schedule update and MVPS.

Medicare Volume Performance Standards Recommendation for Fiscal Year (FY) 1995

Background

Section 6102 of the Omnibus Budget Reconciliation Act (OBRA) of 1989 (P.L. 101-239) added section 1848, Payment for Physicians' Services, to the Social Security Act (the Act). Section 1848(f) of the Act establishes the Medicare volume performance standard (MVPS), which is a system for establishing goals for the rate of growth in expenditures for physicians' services. The MVPS rates of increase are not limits on expenditures. Payments for services will not be withheld if performance rates of increase are exceeded. Rather, the success or failure in meeting the performance standard would be one of the factors considered in setting the annual fee update in a subsequent year.

The Secretary of Health and Human Services is required to recommend to Congress by April 15 of each year the performance standard rates of increase for the fiscal year beginning in that calendar year. The MVPS recommendation being made in this report is for FY 1995, i.e., the year beginning October 1, 1994, and ending September 30, 1995. In making the recommendation the Secretary is required to consider:

- Inflation.
- Changes in the number of enrollees.
- Aging of enrollees.
- Changes in technology.
- Evidence of lack of access to physicians' services.
- Evidence of inappropriate utilization of services.
- Other factors that the Secretary considers appropriate.

The Physician Payment Review Commission is required to review the Secretary's recommendation and make its own recommendation to Congress by May 15. If Congress does not establish an MVPS for a fiscal year by October 31, the MVPS rates of increase will be established through an automatic default mechanism as set forth in section 1848(f)(2)(A) of the Act. Under this mechanism, the MVPS rates of increase would equal the product of the following factors, less an adjustment described below:

- The estimate of the weighted average percentage increase in physicians' fees for calendar years included in the fiscal year involved.

- The estimate of the percentage increase or decrease in the average number of enrollees (excluding risk HMO enrollees) from the previous fiscal year to the fiscal year involved.

- The Secretary's estimate of the average annual percentage growth in volume and intensity of physicians' services for the five year period ending with the preceding fiscal year.

- The Secretary's estimate of the percentage increase or decrease in expenditures for physicians' services resulting from changes in law or regulations.

This product is then reduced by a performance standard factor set by statute. This factor was 2.0 percentage points for FY 1992 - FY 1993, 3.5 percentage points for FY 1994, and is 4 percentage points for FY 1995 and all future years. The Omnibus Budget Reconciliation Act (OBRA) of 1993 required the creation of a separate performance standard for primary care services. The table below shows the MVPS rates of increase established for FY 1990 - FY 1994.

Performance Standard Rates of Increase for Prior Years

	All Services	Surgery	Nonsurgery	Primary Care
FY 1990	9.1	*	*	*
FY 1991	7.3	3.3	8.6	*
FY 1992	10.0	6.5	11.2	*
FY 1993	10.0	8.4	10.8	*
FY 1994	9.4	9.1	9.2	10.5

*No separate target

Note: The law requires the Secretary to recommend and publish an MVPS for all physician services. Although a separate MVPS for all physician services is published, it has no practical effect because expenditures are measured relative to the MVPS standards for surgical, primary care, and nonsurgical services.

Categories of Services Subject to Separate Performance Standards

For FY 1995, we are recommending separate performance standards for surgical services, primary care services and other nonsurgical services, consistent with the default standards in current law.

The factors we considered for our FY 1995 recommendation are described below.

Inflation

Our estimate of this factor is based on the Medicare Economic Index (MEI)--a measure of inflation in the items most relevant to

a physician's office practice. Our most recent estimate of the MEI for CY 1995 is 2.2 percent. Our current MEI estimate may change between now and when the FY 1995 MVPS is established, based on updated economic data.

Similar to our recommendation last year, we are considering two other factors which will have an effect on the general level of fees for physicians' services in FY 1995:

- Laboratory services are updated by the Consumer Price Index (CPI). For 1994 and 1995, however, OBRA 1993 provided for a 0 rate of increase.

- Participating physicians (physicians who agree to accept the Medicare allowance as payment in full and charge the beneficiary only the remaining portion of their deductible or the 20 percent coinsurance amount) are paid 5 percent more for their services than nonparticipating physicians. Participation rates have climbed steadily each year and we assume that this trend will continue.

When all of these factors are considered, the weighted composite inflationary effect on physicians' fees is estimated to be 2.4 percent for surgical, primary care, and for all other nonsurgical services. This is based on the most current projections now available. Changes in the economic projections and the MEI methodology between now and October--when the MEI update is usually calculated--may affect this figure.

Enrollment

Average Medicare Part B enrollment in FY 1995 is estimated to grow by 1.1 percent for all categories of service exclusive of enrollment in risk HMOs.

Aging

We are estimating that the age of the average Medicare beneficiary will increase, contributing slightly to increasing Medicare expenditures. Aging of the Medicare population would add 0.1 percentage points to the MVPS standards for all categories of services in FY 1995.

Technology

As the Department has stated in prior years, we do not expect to be able to quantify the effects of technology on expenditure growth in the near future. While improvements in our data systems will be helpful for tracking year to year increases in expenditures for specific procedures, we do not believe it will be possible to isolate the effects of technology because rates of growth can be attributed to many factors. However, we remain

interested in improving our understanding of how technological innovation affects Medicare spending.

Inappropriate Utilization

Although we remain concerned about inappropriate utilization of specific procedures and the extent of geographic variation in utilization, we cannot quantify its effects to take it into account for our MVPS recommendation.

Access

We have no evidence that there are any widespread problems with beneficiaries securing access to services. We would also note that policies already exist to improve beneficiary access to services. The participating physician program gives physicians incentives to accept the Medicare allowance as payment in full. Participation and assignment rates have increased steadily. Additionally, physicians providing services to Medicare beneficiaries in health professional shortage areas can receive a bonus of 10 percent of the Medicare allowance. The President's Health Security Act (HSA) proposes to increase this bonus to 20 percent for all primary care services provided in health professional shortage areas while maintaining the 10 percent bonus for all nonprimary care services provided in rural health professional shortage areas. The proposal would eliminate the bonus payment for nonprimary care services provided in nonrural health professional shortage areas. Congress has also established a variety of other health professional resource programs (such as the National Health Service Corps) which give physicians incentives to practice in medically underserved areas.

While there no doubt are substantial differences in utilization rates for certain services around the country, we have no basis for proposing a utilization or access factor as part of our MVPS to deal with this issue.

Other Factors

In our FY 1995 MVPS recommendation, we are considering five other factors: (1) the FY 1995 impact of the transition to the fully implemented physician fee schedule, (2) the effect of the recommended CY 1995 physician fee schedule update if it were to be enacted by Congress, (3) the effect of OBRA 93 provisions related to expenditures for physicians' services, (4) the effect of other proposals included in the President's Health Security Act that will have an effect on expenditures for physicians' services in FY 1995, and (5) a change in the allocation of clinical diagnostic laboratory expenditures among the three MVPS categories.

First, the fee schedule transition will affect the MVPS for the three categories of services because of its redistributional impacts; i.e., the shift of payments from procedural to primary care and other "cognitive" services. Second, our recommendation takes into account the CY 1995 updates we are recommending to Congress. As explained in the accompanying report, we are recommending updates (including the 2.2 percent MEI increase) of 10.2 percent for surgical services, 9.4 percent for primary care services, and 3.7 percent for nonsurgical services. Third, we factored into our FY 1995 recommendation the OBRA 1993 provisions reducing practice expense, anesthesia, and the national limitation in the clinical laboratory fee schedule.

Fourth, in addition to the reduction in the update for 1995 contained in the HSA, there are three other HSA provisions which would affect the FY 1995 MVPS.

- A change is proposed in the method for calculating the volume and intensity factor. Instead of using the five year average growth in volume and intensity less a performance factor, the HSA proposes to base this factor on the five year average growth in the gross domestic product (GDP), plus 1.5 percent for primary care. This would assure that our allowance for growth in the volume and intensity of physician services is tied to the general economy and not to historic levels which are considered excessive.

- If enacted, the reimposition of a 20 percent coinsurance for clinical diagnostic laboratory tests would reduce expenditures in 1995.

- If enacted, competitive bidding for clinical laboratory and other services would reduce expenditures in 1995.

Finally, we are also recommending a change in the allocation of clinical diagnostic laboratory expenditures for FY 1995 between the surgical, nonsurgical, and primary care categories. Currently, all expenditures for these services are assigned to the nonsurgical category. However, these tests are ordered by physicians providing services in all three categories. Consistent with the objective of the MVPS to control the volume and intensity of services, we think that physicians who order these tests should be "accountable" for their growth in the MVPS process. Unfortunately, the data to make this allocation for FY 1995 requires further analysis. In the interim, we are recommending that for FY 1995 clinical diagnostic lab services be proportionally assigned to all three categories according to their share of estimated FY 1994 expenditures. Moreover, we request that Congress consider amending the statute to allow assigning these expenditures to all three categories under the

default system based on the specialties of physicians ordering these tests. (Legislation is required because primary care is specifically defined in the statute.)

Recommendation

Our MVPS recommendation for FY 1995 is consistent with the structure of present law, which calls for separate treatment of surgical, primary care, and nonsurgical services. The MVPS we are recommending follows the default formula described earlier with two exceptions. The first and most significant is that we are reflecting the implementation of the various Health Security Act provisions which would impact FY 1995 expenditures for physicians' services. Second, as indicated above, we are dividing clinical laboratory services proportionally among the three FY 1995 volume performance standards.

Our overall MVPS recommendation for FY 1995 is 5.6 percent for all physician services, 5.8 percent for surgical services, 11.1 percent for primary care and 3.3 percent for nonsurgical services. This was derived as follows:

	All	Surgical	Primary Care	Non-Surgical
Increase in Fees	2.4	2.4	2.4	2.4
Growth in Part B Enrollment	1.1	1.1	1.1	1.1
Volume/Intensity Allowance	0.8	0.5	2.0	0.5
Changes Due to Law or Regs (including HSA)	1.1	1.6	5.1	-0.8
Aging of the Population	0.1	0.1	0.1	0.1
Total	5.6	5.8	11.1	3.3

If Congress does not act to establish the MVPS, the MVPS rates will be established through the automatic default formula. Our estimate of the MVPS under the default formula without the HSA provisions and the change in the assignment of clinical laboratory expenditures would be 9.7 percent for all physician services, 11.8 percent for surgery, 12.8 percent for primary care and 7.5 percent for nonsurgical services.

CMS LIBRARY
3 8095 00015076 9